

Minneapolis Community Development Agency

Request for City Council Action

Date: July 15, 2002

To: Council Member Lisa Goodman, Community Development Committee
Council Member Barbara Johnson, Ways & Means/Budget Committee
Council Member Sandy Colvin Roy, Transportation and Public Works Committee

Referral to: MCDA Board of Commissioners

Prepared by: Darrell Washington, MCDA Project Coordinator, 673-5174

Approved by: Chuck Lutz, MCDA Interim Executive Director _____

Subject: Authorization to enter into Phase 2 Development Agreement (Rental Components) with McCormack Baron & Associates; Authorization for City of Minneapolis and Minneapolis Community Development Agency (MCDA) to enter into a Joint Powers Agreement with the Minneapolis Public Housing Authority (MPHA); Authorization for City of Minneapolis to enter into a Cooperation Agreement with MPHA; Appropriate revenue to the Heritage Park budget for infrastructure and management fee payments

Previous Directives: On July 31 1998, the City Council approved a resolution affirming a special law approved by the Minnesota Legislature in 1997 relating to the establishment of a housing transition tax increment district. On July 30, 1999, the City Council approved the Near North Community Redevelopment Plan. On March 24, 2000, the City Council approved the Near Northside Master Plan. On May 12, 2000, the City Council and MCDA Board approved a Master Development Agreement with McCormack Baron. On August 25, 2000, the City Council approved a Stage 1 Finance plan for the park, open space and infrastructure improvements to be constructed in Phase 1. On May 18, 2001 the City Council approved a financing strategy for the North-South Boulevard in Bassett Creek Valley. On June 8, 2001 the City Council and MCDA Board approved the business terms of the Phase 1 Development Agreement (Rental Components) and authorized City officials to enter into a Joint Powers Agreement with the MCDA and MPHA. On June 22, 2001, the City Council and MCDA Board approved the Hollman Transition TIF Plan, Modification No. 13 to the Grant Urban Renewal Plan, and Modification No. 84 to the Common Development Tax Increment Finance Plan. On December 28, 2001, the City Council approved Modification No. 14 to the Grant Urban Renewal Plan and Modification No. 87 to the Common Plan

Neighborhood Group Notification: Not Applicable. The Near Northside Master Plan, on which Phase 2 of Heritage Park is based, was the subject of an extensive community process in 2000.

Consistency with *Building a City That Works*: The Heritage Park development is consistent with Goal 2: Ensure that an array of housing choices exists to meet the needs of our current residents and attract new residents to the city.

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Comprehensive Plan Compliance: Phase 2 of the Heritage Park development is consistent with the current Comprehensive Plan

Zoning Code Compliance: Phase 2 is consistent with the current Zoning regulations.

Impact on MCDA Budget: (Check those that apply)

- ☒ No financial impact
- ☐ Action requires an appropriation increase to the MCDA Budget
- ☐ Action provides increased revenue for appropriation increase
- ☐ Action requires use of contingency or reserves
- ☒ Other financial impact (Explain): Authorization for City of Minneapolis and Minneapolis Community Development Agency (MCDA) to enter into a Joint Powers Agreement with the Minneapolis Public Housing Authority (MPHA).

Living Wage / Business Subsidy: Phase 2 of the Heritage Park development involves only housing, which is exempted from Living Wage and Business Subsidy Act requirements.

Job Linkage: Phase 2 of the Heritage Park development involves only housing, which is exempted from Job Linkage requirements.

Affirmative Action Compliance: The development agreement for Phase 2 will require the developer to comply with all applicable MCDA and City affirmative action goals.

Recommendation:

City Council Recommendations:

1. Approve the business terms for a Phase 2 Development Agreement (Rental Components) for Heritage Park among the City of Minneapolis, Minneapolis Community Development Agency, Minneapolis Public Housing Authority and McCormack Baron and Associates, Inc. (the "Phase 2 Development Agreement") as outlined in this report;
2. Authorize the appropriate City officials to execute Development Agreement;
3. Authorize the appropriate City officials to enter into a Joint Powers Agreement for Phase 2 between MCDA and MPHA (the "Phase 2 Joint Powers Agreement");
4. Authorize the appropriate City officials to enter into a Cooperation Agreement for Phase 2 with MPHA;
5. Increase the appropriation for Heritage Park infrastructure work (4100 970 9719) by \$466,500 and increase the Near Northside Redevelopment revenue (4100 970 9719 Source 3755) for 2002 funding by the proceeds from the closing of the Phase I real estate transaction;
6. Authorize the City Engineer to proceed with Heritage Park Phase 2 public improvements;
7. Authorize staff to work with the City Finance Officer on a strategy to provide interim financing for Phase 2 site preparation activities not to exceed \$1.0 million that will be in place until TIF bonds are issued in 2003; if an interim financing strategy can be arranged, it will be brought back to the City Council for approval;

8. Designate the location, streets and improvements proposed to be made in the Heritage Park Phase 2 Redevelopment Project;
9. Receive an assessment cost estimate of \$2,830,000 for public infrastructure improvements;
10. Increase the appropriation in Public Works Sewer Construction Capital Improvement Fund (4100-970-9719) by \$738,000, Public Works Permanent Improvement Capital Improvement Fund (7300-970-9719) by \$280,500, and Public Works Water Capital Improvement Fund (7400-970-9719) by \$272,000;
11. Authorize the Board of Estimate and Taxation to issue and sell assessment bonds in the total amount of \$1,290,500 (\$738,000 streets, sidewalks, street lighting, \$280,500 sanitary sewers, \$272,000 water mains) for public infrastructure improvements to be made in the Heritage Park Phase 2;
12. Designate the Street Lighting Project Area as Street Lighting District Number 1293;
13. Transmit this report to the MCDA Board of Commissioners for concurrence and approval.

MCDA Recommendations:

1. Approve the business terms for Heritage Park Phase 2 outlined in this report;
2. Authorize the appropriate MCDA officials to execute the Phase 2 Development Agreement
3. Authorize the appropriate MCDA officials to enter into the Phase 2 Joint Powers Agreement.

Background/Supporting Information

Negotiations of the business terms in the Phase 2 Development Agreement (Rental Components) among the City of Minneapolis, Minneapolis Community Development Agency ("MCDA"), the Minneapolis Public Housing Authority ("MPHA") (collectively, the "Public Entities") and McCormack Baron & Associates ("Developer") have been completed. The business terms of the Phase 2 Development Agreement as negotiated among the parties are contained in the body of this report. Staff is recommending approval of the business terms in the agreement and further recommends that the appropriate City and MCDA officials be authorized to execute the Phase 2 Development Agreement. Staff is also recommending that the appropriate City and MCDA officials be authorized to enter into a Joint Powers Agreement for Phase 2 with MPHA and that the proper City officials be authorized to execute a Cooperation Agreement with MPHA.

At the financial and real estate closings, the MPHA will enter into a Ground Lease, Regulatory and Operating Agreement and related agreements with the limited partnership formed by the Developer to own and operate the improvements for at least 61 years. The land will continually be owned by MPHA.

Heritage Park Development

The Heritage Park (formerly Near Northside) Redevelopment Project will result in 900 new housing units replacing the former Sumner, Olson, Glenwood, and Lyndale family public housing developments. The redevelopment is generally bounded by I-94 on east, Glenwood Ave. on the south, Girard Terrace and

Humboldt Ave. N on the west, and 7th Street N. on the north. McCormack Baron & Associates of St. Louis is the master developer for the project and is partnered with the local firm of Legacy Management and Development Corporation. Limited Partnerships are being formed for each of the separate rental housing phases. McCormack Baron and Legacy are the general partners in each of the limited partnerships. The limited partnerships will enter into long-term ground leases with MPHA and they will construct, own and manage the rental units.

Of the nine-hundred (900) new housing units that will be constructed between 2002 and 2009, 440 will be rental units and 360 units will provide homeownership opportunities. The remaining 100 units will be built for elderly public housing residents. The rental and for-sale housing units will be built for families of a variety of incomes. Of the 440 total rental units, 200 units will be Hollman replacement family public housing (for families typically at or below 50% of area median income) and 90 units will be constructed using tax-credit financing (for families at or below 50% of area median income). The remaining 150 units will be offered at market-rate rent levels. Of the 360 ownership units, 55 will be affordable to families with incomes less than 60% of area median income, and an additional 55 will be affordable to families with incomes at or below 80% of area median income.

The Heritage Park Redevelopment Project is being implemented in four phases. The first two phases are located on the north side of Olson Memorial Highway and the third and fourth phases are on the south side of Olson. Construction of the Phase 1 rental housing is currently underway with the first units planned to be leased in the fall and all Phase 1 rental units completed by Fall, 2003. Completion of the public infrastructure and site preparation work is anticipated to end 2003 for Phase 1 and 2004 for Phase 2. Phase 1 includes 232 rental units. Phase 2 includes 113 rental units. Phase 3 will contain the remaining 95 rental units.

The proposed timeline for all project phases is as follows:

Table 1 Proposed Construction Schedule		
Phases and Unit Type	Number of Units	Expected Buildout Date
Phase 1 Rental	232	2003
Phase 1 Ownership	38	2003
Phase 2 Rental	113	2004
Phase 2 Ownership	65	2004
Phase 3 Rental	95	2004
Senior Public Housing	100	2006
Phase 3 Ownership	126	2007
Phase 4 Ownership	131	2009
<i>Total Number of Units</i>	900	

Upon completion, Heritage Park will include new public parks, new infrastructure, facilities for existing community and service organizations, and a parkway boulevard that will connect this north Minneapolis community with south Minneapolis.

Phase 2 Rental Development Agreement terms

Phase 2 Rental Components

Phase 2 will contain 113 rental housing units as follows:

- 57 public housing rental units (a total of 200 will be developed in Phases 1, 2 and 3);
- 25 tax credit (affordable) rental units; and
- 31 market-rate rental units.

The public housing units and other affordable rental units will be mixed within each building and will be physically indistinguishable from the market-rate units. All rental units, including the public housing units, will be privately owned and managed. Units will be a variety of types, including townhouses and small walk-up apartments. Rental housing units in Phase 2 are targeted for completion by September 2004. In order to meet this completion date, site preparation must begin by September 15, 2002.

Site Preparation

The Public Entities will contract with the Developer to perform the following site preparation tasks:

- Clearing and grubbing of trees and vegetation from the site.
- Cutting and filling of development blocks according to the mass grading plan and specifications.
- Removing abandoned public and private utilities and remaining vestiges of former public housing if they conflict with necessary site preparation activities for buildings.

The Public Entities will need to demolish several housing units prior to the start of the Developer's site preparation activities. The MCDA must acquire Rawlins Circle, relocate displaced residents, demolish the structures, and convey the property to MPHA. MPHA must demolish or remove the structures it owns on the adjacent Smith Circle. These activities will be completed in accordance with a schedule that will allow site preparation activities to occur in 2002. The Public Entities also are obligated to ensure the site meets MPCA residential standards in regards to environmental conditions. MCDA is using Braun Intertec to develop a work plan for further investigation and, if necessary, a remediation plan for the site.

Infrastructure

The City will construct roads and other public improvements on the site consistent with the approved Master Plan. The construction schedule for public improvements is being coordinated with the Developer's housing construction schedule.

The funding for Phase 2 public activities has been previously appropriated by the City Council except for Tax Increment and Empowerment Zone funds and the appropriations requested in this report. Appropriation of these funds by the City Council will be completed in 2002 (Empowerment Zone) and 2003 (TIF), in consultation with the City Finance departments. Interim financing will be structured and put into place, in accordance with City Finance procedures, until these remaining sources have been appropriated. Staff is currently discussing an interim financing strategy with the City Finance Officer, the goal of which is to reduce capitalized interest expenditures and to maximum tax increment that can be used for public activities.

Table 2
Heritage Park Phase 2 Public Activities Budget

Uses

Sources

Public Improvements (Streets, Lights, Sidewalks, Sanitary Sewers, Watermains, Storm Drains, and Median features)	\$2,830,000	Special Assessments	\$1,290,000
		Met. Council Grant	960,000
		State Bond Funds	250,000
		Storm Sewer Fund	150,000
		Mississippi Watershed Org.	130,000
		Water Fund	50,000
Development Block Site Preparation (clearing, removals, grading)	\$500,000	Tax Increment Financing	\$500,000
Soil Evaluation and Clean-up	\$500,000	Tax Increment Financing	\$500,000
Rawlins Circle property acquisition	\$1,500,000	Empowerment Zone	\$1,500,000
<i>Total Uses</i> \$5,330,000		<i>Total Sources</i> \$5,330,000	

Recapture of Public Investment

Master Planning Costs

The Master Planning Agreement with the Developer specified that the City would cover both administrative fees to the Developer during the Master Planning process together with payments for their consultants and third party expenses. Costs incurred during the Master Planning phase totaled \$1.16 million. The parties agreed that a portion of these costs that a Developer would normally incur, but the City advance funded, would be reimbursed at the closing of each phase. During the Phase 1 negotiations, the parties agreed to a formulaic approach for reimbursement of the Master Planning costs that the Public Entities funded -- \$1,200 per unit developed (800 total). Reimbursement of the Master Planning costs by the Developer for Phase 1 was \$278,400 (\$1,200 for each of the 232 rental units). Reimbursement of the Master Planning costs by the Developer in Phase 2 will total \$135,600 (\$1,200 for each of the 113 rental units).

In addition, the Master Development Agreement called for the City to pay the Developer a flat fee of \$30,000 per month from June 2000 through March 2001. For the project's predevelopment phase (from June 2000 through March 2001), these fees totaled \$300,000. At the Phase 1 closing, the Developer reimbursed the City one half of the amount - \$150,000. The City continues to pay the Developer \$15,000 per month as a program management fee.

Ground Lease Term and Repayment

MPHA owns most of the Phase 2 site area. MCDA intends to transfer the Rawlins Circle property to MPHA upon completion of acquisition, relocation and demolition activities. MPHA will then lease the entire Phase 2 site to a limited partnership formed by the Developer for at least 61 years. At the end of the lease term, the entire project will revert to the ownership of MPHA. The lease terms are being negotiated between the MPHA and the Developer.

Housing Development Budget

The primary sources of funds to construct the 113 rental units in Phase 2 include contributions from MPHA Hollman settlement funds, Minnesota Housing Finance Agency, Hennepin County, Family Housing Fund, and Empowerment Zone funds.

Table 3
Preliminary Housing Development Sources

1 st Mortgage (HRB)	\$3,737,000	
General Partner Equity (MBA)	\$135,600	
Equity - Limited Partner (tax credits)	\$5,466,000	
Minneapolis Public Housing Authority	\$8,604,700	committed
MHFA, Hennepin County, Empowerment Zone & Other Sources	\$2,537,800	
MCDA - Multifamily Rental	\$1,000,000	committed
<i>Total Sources</i>	\$21,481,100	

Contracting and Employment Goals

The City Council in March 2000 approved goals for contracting and employment for work performed at Heritage Park. Both the Developer and the Public Entities are bound by the following goals:

Small and Underutilized Business Program

- 25% Minority-Owned Business Goal
- 10% Women-Owned Business Goal

Workforce Goals

- 33% Minority Goal - Skilled and/or Unskilled
- 5% Female Goal

HUD Section 3

- 10% New Business Goal
- 30% New Hire Goal
- Procurement contracts for supplies and materials are not subject to Section 3

Apprenticeship Goals

Contractors or subcontractors with contract awards of \$1 million or more will commit to a goal of one apprenticeship per \$1 million of contracted work - 90% of this goal will be achieved through hiring people of color from the community and the City of Minneapolis.

The Development Agreement also contains the standard language on nondiscrimination, equal employment opportunity, and hours and wages. The project specific apprenticeship goals are deemed to replace the general apprenticeship program goals.

Termination of Agreement by Public Entities or Developer

The Development Agreement contains language regarding termination of the Agreement by the parties.

- If the Agreement is terminated by the Public Entities, the Public Entities must compensate the Developer only for work products that have been accepted, provided they are useable and MPHA receives reimbursement from public housing development funds. The Public Entities may pursue any remedies at law or equity for Developer default.
- The Developer has the right to terminate the Agreement if the Public Entities are in default based on any action or failure to act that would jeopardize needed project approvals or cause the loss or termination of financial assistance. If a cure were not available, the Developer would be entitled to reimbursement of

third party costs plus a reasonable profit allowance, costs of terminating subcontracts and certain legal and accounting costs.

- The parties also acknowledge there are development contingencies over which the Developer has limited or no control. Examples include public financing for project elements, timely completion of infrastructure, and unforeseen environmental or geotechnical conditions including the removal of hazardous materials. If a development contingency fails to occur and the parties are unable to resolve the problem, the Developer may withdraw and the Public Entities must reimburse the Developer for certain third party costs provided that (a) such tasks or products are useable by the Public Entities in its further carrying out of the Heritage Park Redevelopment; and (b) the Public Entities receive reimbursement for such works as recognized project costs from public housing development funds.

Joint Powers Agreement Among City of Minneapolis, MCDA and MPHA

The City of Minneapolis, MCDA and MPHA, while referred to collectively as the "Public Entities" in the Phase 2 Development Agreement, each have distinct responsibilities with respect to the Phase 2 development. MPHA is the owner of the land, and will be entering into a Ground Lease and related agreements with the limited partnerships formed by the Developer. The City of Minneapolis is responsible for constructing public infrastructure improvements. MCDA has overall project management responsibilities and is managing preparation of the site, including environmental remediation and property acquisitions. The proposed Joint Powers Agreement makes the relationships among the three Public Entities clear. Its major terms are as follows:

- MCDA will oversee the site preparation work by the developer, coordinate public activities and provide technical assistance to the City and MPHA on the matters such as title commitments and working with MPHA to resolve the Developer's title objections, plan review and approval and pollution remediation.
- The City will construct the public improvements on the site. If the development does not proceed after the City improvements are made, MPHA will use reasonable efforts to reimburse the City and MCDA if the improvements are useable and if a third party pays MPHA for them.
- The MPHA acknowledges that, as the owner of the property, it is legally responsible for the environmental condition of the property, and that the MCDA is conducting the environmental activities for MPHA's benefit. The City has ordered environmental assessments, and the MCDA will perform environmental remediation activities on-site on behalf of MPHA, in accordance with the Response Action Plan (RAP) and availability of funds. Each party agrees to hold the other two harmless for environmental conditions caused by that party. With respect to environmental conditions not covered in the RAP, MPHA agrees to hold the City and MCDA harmless.
- MCDA and MPHA will work cooperatively on many issues including: review of plans and specifications, review of development budget, geotechnical review, developer's financing review, approval of fees paid to the developer and monitoring monthly developer progress reports.
- MPHA will facilitate HUD review and approval of mixed-finance documents.
- The City will monitor most contracting and employment goals (e.g. prevailing wage, MBE, WBE, and apprenticeship goals).
- MPHA will monitor the HUD Section 3 contracting and employment goals.

Cooperation Agreement Between City of Minneapolis and MPHA

The City of Minneapolis is seeking to enter into an agreement with the Minneapolis Public Housing Authority (MPHA) to allow MPHA to make annual payments to the City in lieu of property taxes. This agreement would cause MPHA to submit an annual payment to the tax assessor equaling five percent (5%) of the total rent or shelter payments (excluding utility costs) for the Phase 2 public family housing units (57) within the Heritage Park development.

Public housing units in Minnesota are statutorily exempt from all real and personal property taxes levied or imposed upon by the State of Minnesota and its political subdivisions (City, County, Regional, etc.). In order to help pay for the local public services and facilities that the families living in public housing units consume (such as police, fire, park trails, etc.) the state allow the local jurisdiction to charge a nominal PILOT (Payment In Lieu Of Taxes) amount. This PILOT amount can range as low as five percent and as high as the amount agreed between the public authority and the local jurisdiction. The amount of the PILOT payment for the Phase 1 area of the Heritage Park development was set at five (5) percent.

According to Minnesota State Statutes (Chapter 469.040), once the public housing units are occupied the MPHA must file with the assessor a statement of the aggregate shelter rents collected during the preceding calendar year. The PILOT amount or service charge is thus calculated using the agreed percentage (5%) between the parties and this amount is distributed to the several taxing bodies in the same proportion as the total tax rate.

Special Assessments

This report designates the location, streets and improvements proposed to be made in the Heritage Park Phase 2 Project and requests authorization to construct public infrastructure items for the Phase 2 Rental portion of Heritage Park as petitioned by the Minneapolis Public Housing Authority and the Minneapolis Community Development Agency.

The cost estimate for completing the public improvements is \$2,830,000 (see Table 2). The properties listed on the petition will be assessed \$1,290,500 to be collected over 20 years beginning on the 2004 real estate tax statements with interest charged at the same rate as the assessment bonds are sold. The levying of the assessments would be postponed until the work is substantially complete, approximately in the fall of 2003.

As provided in Chapter 431 (Street Lighting) of the Minneapolis Code of Ordinances, the street lighting project area has been designated as Street Lighting District Number 1293. Properties exempt from real estate taxes pay for street lighting maintenance and operation costs through special assessments.

A signed petition from the property owners, waiving their rights to both a project approval public hearing and special assessment public hearing is on file with the Department of Public Works and a copy is attached to this report.

The properties listed below will be assessed and also will be described as Heritage Park Phase 2 Outlots A, B and C (a map is attached to this report).

Minneapolis Public Housing Authority, Owner

<u>All of current PIDs</u>	<u>Address</u>
21-029-24-11-0083	1000 Aldrich Av. N.
21-029-24-11-0084	Address Pending
21-029-24-11-0085	Address Pending

<u>Part of current PIDs</u>	<u>Address</u>
21-029-24-11-0006	1121 Smith Circle
21-029-24-11-0007	1125 Smith Circle
21-029-24-12-0079	1129 Smith Circle

Minneapolis Community Development Agency, Owner

<u>All of current PIDs</u>	<u>Address</u>
21-029-24-11-0008	910 Rawlins Circle
21-029-24-11-0009	916 Rawlins Circle
21-029-24-11-0010	922 Rawlins Circle
21-029-24-11-0011	928 Rawlins Circle
21-029-24-11-0012	934 Rawlins Circle
21-029-24-11-0013	940 Rawlins Circle
21-029-24-11-0014	946 Rawlins Circle
21-029-24-11-0015	952 Rawlins Circle (condemnation pending)
21-029-24-11-0016	958 Rawlins Circle (condemnation pending)

Authorize Appropriation of Revenue for the Heritage Park Infrastructure Budget

Upon the financial closing of Heritage Park's Phase 1, the City received \$466,500 in reimbursement payments from the Developer. The Public Entities will use these funds to pay the Developer their management fee of \$15,000 per month and, if remaining funds are available, other public infrastructure costs.

Exhibits

The following materials are attached as Exhibits:

- Exhibit 1 - A map of the Heritage Park development that highlights the Phase 2 development area
- Exhibit 2 - Draft Joint Powers Agreement
- Exhibit 3 - Draft Cooperation Agreement
- Exhibit 4 - Petition to assess certain properties for public infrastructure work
- Exhibit 5 - Resolution authorizing application to Livable Communities Demonstration Program